Legislative Audit Division

State of Montana

Report to the Legislature

September 1996

Financial Audit

For the Fiscal Year Ended June 30, 1996

Guaranteed Student Loan Program

Commissioner of Higher Education

We issued an unqualified opinion on the financial statements of the program and our report contains no recommendations.

Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

96-6

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey

Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

September 1996

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial audit of the Commissioner of Higher Education's Guaranteed Student Loan Program (GSLP) for the fiscal year ended June 30, 1996.

The Montana Guaranteed Student Loan Program was authorized by the Montana Legislature in 1979 and established July 1, 1980. The GSLP allows eligible students to receive loans from lending institutions to pay for post-secondary education. The federal government guarantees the loans made by lending institutions and makes administrative cost reimbursements to the GSLP. The Budget Reconciliation Act of 1993, which includes the Student Loan Reform Act of 1993, may have a material impact on the operations of the GSLP in future years. For more information see note 21 on page A-14 of the notes to the financial statements.

The Guaranteed Student Loan Program initially contracted with United Student Aid Funds, Inc. to process and service loans. In 1988, the Montana GSLP began assuming the administrative duties associated with the loan guarantee process. During 1990 the GSLP assumed complete administrative controls but continues to contract with USA Services, Inc. for computer support services.

We thank the Commissioner of Higher Education and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Room 135, State Capitol Building, PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784

Legislative Audit Division

Financial Audit
For the Fiscal Year Ended June 30, 1996

Guaranted Student Loan Program

Commissioner of Higher Education

Members of the audit staff involved in this audit were Wayne Kedish and Charles Nemec.

Table of Contents

Guaranteed Student Loan Program

We performed the financial audit of the Montana Guaranteed Student Loan Program for the fiscal year ended June 30, 1996. This report contains the audited financial statements and accompanying notes for fiscal year 1996. We issued an unqualified opinion on the financial statements. The opinion means the reader may rely on the financial statement information presented.

The current report does not contain any audit recommendations. The report does contain information relating to the changing federal student loan program environment. The prior report contained no audit recommendations.

Independent Auditor's Report & Program Financial Statements

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey

Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the Balance Sheet of the Commissioner of Higher Education's Guaranteed Student Loan Program - Special Revenue Fund of the state of Montana as of June 30, 1996, and the related Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the fiscal year then ended. These financial statements are the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Commissioner of Higher Education's Guaranteed Student Loan Program - Special Revenue Fund and are not intended to present fairly the financial position and results of operations of the state of Montana in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commissioner of Higher Education's Guaranteed Student Loan Program - Special Revenue Fund of the state of Montana as of June 30, 1996, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James H. Gillett, CPA
Deputy Legislative Auditor

August 23, 1996

Room 135, State Capitol Building, PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784

GUARANTEED STUDENT LOAN PROGRAM
SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 1996

ASSETS	
Cash in Treasury	$854,493
Accounts Receivable	49,158
Due From Federal Government (Note 2)	2,344,889
Loans To Students (Note 3)	12,086
Investments (Note 4)	7,369,800
Total Assets	$10,630,426
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts Payable	$237,658
Property Held in Trust (Note 5)	83,353
Due to Federal Government (Note 6)	685,638
Deferred Revenue (Note 7)	4,594,113
Total Liabilities	$5,600,762
Fund Balances:	
Restricted (Note 8)	$14,701
Unrestricted	5,014,963
Total Fund Balance	$5,029,664
Total Liabilities and Fund Balances	$10,630,426

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
MONTANA GUARANTEED STUDENT LOAN PROGRAM
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUE:			
Guarantee Fee Income (Note 7)	$1,338,332	$1,365,554	$27,222
Administrative Expense Allowance (Note 9)	646,000	746,265	100,265
Investment Earnings (Note 4)	191,637	402,349	210,712
Collection Costs Retained (Note 10)	1,156,646	977,782	(178,864)
Supplemental Preclaims Assistance (Note 11)	122,883	219,749	96,866
Accrued Interest (Note 12)	10,000	31,679	21,679
Nonreinsured Loan Recoveries	10,000	12,609	2,609
Escrow Disbursement Service Fees (Note 5)	50,000	54,853	4,853
Miscellaneous Revenue	5,000	21,905	16,905
TOTAL REVENUES	$3,530,498	$3,832,745	$302,247
EXPENDITURES:			
Administrative Costs	$3,158,170	$2,625,788	$532,382
Agency Share of Loan Defaults (Note 13)	50,000	40,248	9,752
Equipment and Intangible Assets	73,203	85,733	(12,530)
Debt Service	0	1,874	(1,874)
TOTAL EXPENDITURES	$3,281,373	$2,753,643	$527,730
Excess Revenues Over/ (Under) Expenditures	$249,125	$1,079,102	$829,977
Prior Year Adjustment (Note 16)	0	5,461	5,461
Fund Balance - 07/01/95	3,945,101	3,945,101	0
Fund Balance - 06/30/96	$4,194,226	$5,029,664	$835,438

The accompanying notes are an integral part of this financial statement.

COMMISSIONER OF HIGHER EDUCATION
GUARANTEED STUDENT LOAN PROGRAM
SPECIAL REVENUE FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana's Guaranteed Student Loan Program (MGSLP) is located in the Office of the Commissioner of Higher Education. As a Special Revenue Fund, it accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. MGSLP was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions within the State of Montana. Montana's Federal Family Education Loan Program operates in compliance with agreements with the U.S. Department of Education (DE), pursuant to Section 428 of the Higher Education Act of 1965, as amended (The Act).

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recorded on the basis of valid obligations. Revenues are recorded when received in cash unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the fiscal period or are not received at the normal time of receipt. Revenues are deferred if material and received before the normal time of receipt or if received for a particular activity and the expense for that activity has not been incurred prior to fiscal year end.

2. DUE FROM FEDERAL GOVERNMENT

MGSLP pays individual lending institutions for any loans that have been defaulted or are unpaid due to the death, permanent disability, or bankruptcy of the borrower. The agency then seeks reimbursement from DE in accordance with reinsurance agreements between the agency and DE (See Note 13).

In addition, the receivable Due From Federal Government includes amounts MGSLP had not yet received for administrative expense allowance payments (Note 9) for the second, third, and fourth quarters of FY96, and supplemental preclaims assistance (SPA) reimbursements (Note 11) for accounts which were satisfactorily brought current in the last two months of the fiscal year. The extent of the outstanding reinsurance activity and other pending reimbursements from DE as of June 30, 1996, is shown below.

Reinsurance claims due from DE	$2,096,842
Administrative Expense Allowance for the last three quarters in FY96	209,843
SPA for May & June, 1996	38,204
Total Due From Federal Government	$2,344,889

3. LOANS TO STUDENTS

In exceptional circumstances, MGSLP has purchased student loans from lenders, prior to any claim being filed, when the borrower is under extreme financial hardship. MGSLP has waived the borrower's responsibility to cover loan interest costs and is holding the loans in a repayment forbearance pending an improvement in the borrower's financial situation. MGSLP has not received reinsurance from DE on these loans.

4. INVESTMENTS

Investments are units purchased in the State of Montana's Short Term Investment Pool (STIP) and are reflected at cost, which equals market. At June 30, 1996, MGSLP owned 7,369,800 units valued at $1 per unit for a total of $7,369,800. Investment earnings during FY96 were $402,349. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements. At June 30, 1996, most securities, classified as Risk Category 1, were held by the state or its agent in the state's name. The remaining portion, classified as Risk Category 2, was loaned under a security lending agreement with the state's agent.

The State of Montana's STIP investment portfolio contained asset-backed securities and variable rate securities with market values of $234,329,292 and $311,229,438; 19.74% and 26.22%, respectively, of the total portfolio at June 30, 1996. Board of Investment's policy requires that STIP investments have the highest rating in the short term category by at least one of the six Nationally Recognized Statistical Rating Organizations.

Asset-backed securities have less credit risk than securities not backed by pledged assets and market risk for these securities is the same as market risk for similar non asset-backed securities. While variable-rate securities have credit risk identical to similar fixed-rate securities, their market risk is more sensitive to interest rate changes. Market risk may be less volatile than fixed-rate securities because the value of variable-rate securities will usually remain at or near par. There are no legal risks that the Board of Investments is aware of regarding any STIP investments.

5. PROPERTY HELD IN TRUST

MGSLP operates an escrow disbursement service for approximately fifty-one lenders. Participating lenders are assessed a fee for this service. In accordance with contracts MGSLP has with the disbursement service lenders, MGSLP automatically debits the lenders' accounts to collect loan proceeds. MGSLP then disburses funds to the schools for delivery to the students either by individual State of Montana warrants or electronic transfers. The MGSLP disbursement service records all adjustments to individual student loan accounts and ensures that school refunds of loan proceeds are promptly returned to the lenders. Disbursement service revenues earned during FY96 were $54,853 including $5,398 which was not received until after June 30, 1996.

As of June 30, 1996, MGSLP's escrow disbursement service held $83,353 in student loan funds which were disbursed to the schools or refunded to the lenders after fiscal year end.

6. DUE TO FEDERAL GOVERNMENT

After assignment to the guaranty agency, MGSLP seeks collection of student loans that have been defaulted or are in Chapter 7 or Chapter 13 bankruptcy status. Recoveries of loans reinsured by DE are owed back to DE (See Note 10). In addition, proceeds of loans sold back to lending institutions after a loan is rehabilitated or repurchased are also owed back to DE. At June 30, 1996, the amount owed to DE is $685,638.

7. DEFERRED REVENUE AND GUARANTEE FEE INCOME

Guarantee fees are received from borrowers at the time loans are disbursed. In all years prior to FY95, MGSLP charged a guarantee fee equivalent to 3% of the loan amount. Effective July 1, 1994, the maximum guarantee fee that borrowers may be charged decreased to 1% of the loan amount. Guarantee fees are deferred and recognized as revenue, using the straight-line method, over an eight year period. This period approximates the average life of an outstanding student loan. Deferred revenues from guarantee fees are invested by MGSLP and are included in the agency's reserves. Deferred revenue at June 30, 1996, is $4,594,113.

Earned guarantee fee income for the fiscal year is made up of the annual guarantee fees received as follows:

Fiscal Year	One-eighth of fees
1989	$ 135,386
1990	166,654
1991	181,017
1992	203,310
1993	218,329
1994	260,288
1995	107,525
1996	93,045
	$1,365,554

8. RESTRICTED FUND BALANCE

The restricted fund balance of $14,701 accounts for interest earnings on the original federal advance which MGSLP received from DE during its start-up phase. Program regulations require that these interest earnings be restricted for claim payments. Since its inception, MGSLP has paid $257,461 in claims which were not reinsured by DE.

9. ADMINISTRATIVE EXPENSE ALLOWANCE

The Omnibus Budget Reconciliation Act of 1993, including the Student Loan Reform Act of 1993, provides that payment of Administrative Expense Allowance (formerly known as Administrative Cost Allowance and Transitional Support) is dependent upon federal appropriation on an annual basis. For the first quarter of FY96 administrative expense allowance (AEA) reimbursements were calculated as 1% of the total consummated loan guarantees made during the quarter. AEA reimbursements in the last three quarters of

FY96 are calculated as 0.85% of the total principal amount of consummated loans guaranteed by MGSLP between October 1, 1995 and June 30, 1996.

AEA reimbursements for loan guarantees during FY96 totaled $746,265. This includes payments of $209,843 for net loan guarantees processed in the last three quarters of FY96 which were not received at June 30, 1996.

10. COLLECTION COSTS RETAINED

When MGSLP collects all or a portion of a defaulted loan reinsured by the federal government, the recovery applied to the reinsured portion of the loan must be forwarded to DE. DE allows MGSLP to retain 27% of the gross recovered amount as reimbursement for the costs associated with collecting. During FY96 MGSLP retained $977,782 from the total recoveries received on loans assigned to the agency.

11. SUPPLEMENTAL PRECLAIMS ASSISTANCE

MGSLP provides supplemental preclaims assistance (SPA) to lenders holding delinquent student loan notes that are between 120 and 270 days past due. The MGSLP staff attempt to contact delinquent borrowers in order to advise them of the options available to them for bringing their delinquent accounts current. After a borrower has been satisfactorily assisted in bringing his/her account current, DE reimburses MGSLP for its efforts. The reimbursement is computed as 1% of the satisfactorily resolved account balance on each account receiving SPA. Reimbursements for SPA during FY96 were $219,749. This includes $38,204 in reimbursements for supplemental preclaims activity during May and June, 1996, which was not received until after June 30, 1996.

12. ACCRUED INTEREST

MGSLP purchases claim eligible bankruptcy accounts from lending institutions. If the claim survives the bankruptcy discharge, MGSLP sells the bankruptcy claim back to a lending institution at its outstanding value, including interest which accrued during the bankruptcy proceedings. During FY96, accrued interest earned on repurchased bankruptcy accounts was $31,679.

13. CONTINGENCIES

The outstanding principal balance of loans guaranteed by MGSLP as of June 30, 1996, is approximately $449,927,000. This amount excludes bad debt, death, disability, and bankruptcy claims which have been previously purchased by the agency.

MGSLP has entered into agreements with DE, dated June 13, 1980, for reinsurance and supplemental reinsurance of loans, in accordance with The Act. These agreements allow for 100% reimbursement by DE for claims due to the death, disability, or bankruptcy of the borrower. Claims due to defaulted loans may be reimbursed by DE for up to 100%. The percent of reimbursement on defaulted loans payable to the agency is dependent upon MGSLP's annual default rate and date of the original loan guarantee. Annual default rates are calculated as the ratio of year-to-date default purchases divided by the original guaranteed amount of loans in repayment status at the beginning of the federal fiscal year. MGSLP's annual default rate has been less than 5% since the conclusion of the 1987 federal fiscal year on September 30, 1987. The following schedule reflects the federal

reinsurance rates on defaulted student loans. In the event of extreme future adverse loss experience, MGSLP could be liable for up to 22% of the outstanding loan volume. During FY96, MGSLP's share of non-reinsurable defaults was $40,248.

RATE OF ANNUAL DEFAULTS	FEDERAL REINSURANCE Loans made on or prior to 9/30/93	FEDERAL REINSURANCE Loans made on or after 10/1/93
0 to 5%	100%	98%
more than 5% but less than or equal to 9%	100% of claims thru 5%; 90% of claims over 5% but less than or equal to 9%	98% of claims thru 5%; 88% of claims over 5% but less than or equal to 9%
over 9%	100% of claims thru 5%; 90% of claims over 5% but less than or equal to 9%; 80% of claims over 9%	98% of claims thru 5%; 88% of claims over 5% but less than or equal to 9%; 78% of claims over 9%

14. LOSS CONTINGENCY FROM DEFAULTED LOAN CONSOLIDATIONS

Section 428(c)(6) of The Act provides that a guaranty agency is authorized to retain an amount of any borrower payments received by the guaranty agency on a defaulted loan. The amount retained is equal to the sum of the complement of the reinsurance percentage in effect when the Secretary paid the reinsurance claim plus 27% of the payment amount to cover administrative costs related to collection and default prevention. Under section 428C of the Act, a defaulted borrower is permitted to acquire a Federal Consolidation Loan and apply the proceeds to pay the balance due on his/her defaulted loans.

Although it is not supported by law or regulation, DE has stated that the payoff amount received by a guaranty agency for a defaulted loan included in a Federal Consolidation Loan is not a payment "made by the borrower", as the term is used in section 428(c)(6). DE claims that The Act does not specifically authorize guaranty agencies to retain any part of the payoff amount on defaulted loans that are consolidated.

MGSLP does not agree with DE's position. MGSLP maintains that DE's interpretation of a payment "made by the borrower" is too narrow and that loan payoffs resulting from consolidation should be subject to agency retention as it is defined in section 428(c)(6) of The Act until, and unless, at some future date a change in regulation or law differentiates an alternate retention rate. MGSLP, in conjunction with other guaranty agencies across the country, are seeking resolution with DE on this issue. Currently, no legal action has been taken by any party. It is possible that MGSLP will eventually be required to return to DE amounts retained from payoffs on defaulted loans which were consolidated. Due to uncertainty about how DE would calculate excessive retention from these payoffs it is not possible to estimate the amount of the possible loss.

15. COMMITMENTS

MGSLP is bound by Guarantee Reserve Agreements with the lending institutions participating in the Federal Family Education Loan Program in Montana. These agreements require MGSLP to maintain an amount in the guarantee reserve fund equal to at least 1.0% of the unpaid principal balance of all outstanding loans guaranteed by the agency. MGSLP's Guarantee Reserve Agreement with the Montana Higher Education Student Assistance Corporation (MHESAC), Montana's student loan secondary market, has been amended to require that its reserve fund be equal to at least 1.5% of the unpaid principal balance of all outstanding loans guaranteed by MGSLP.

The Guarantee Reserve Agreement ensures that MGSLP will have sufficient cash available to carry out its reasonably expected obligations on guaranteed claim eligible student loans. As of June 30, 1996, MGSLP was substantially in compliance with all Guarantee Reserve Agreements.

16. PRIOR YEAR ADJUSTMENTS

Prior year adjustments totaling $5,461 consist of abatements of miscellaneous accrued expenditures for goods and services received in FY95 but not billed until FY96 ($4,994); refunds for services overpaid in FY95 ($800); and payment for miscellaneous services received in FY95 but not billed until FY96 ($333).

17. FIXED ASSETS

MGSLP is accounted for on the Statewide Budgeting and Accounting System (SBAS) as a special revenue fund. The fixed assets of MGSLP are valued at cost, which totals $591,525 as of June 30, 1996. MGSLP fixed assets are included in the General Fixed Assets Account Group within the accounting entities of the Office of the Commissioner of Higher Education.

18. COMPENSATED ABSENCES LIABILITY

MGSLP's liability for compensated absences, which totals $69,189 as of June 30, 1996, is included in the Long Term Debt Account Group within the accounting entities of the Office of the Commissioner of Higher Education.

19. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs MGSLP, is the guarantor of the loans owned by MHESAC. The Board of Regents and MHESAC have four common board members. Approximately 63.4% of MGSLP's outstanding loan volume is held by MHESAC.

MGSLP has an agreement with MHESAC to share certain costs for the lease of computer and mailroom equipment; computer and software maintenance costs; computer supply, photocopy, and facsimile expenses; and personnel costs for employees of MHESAC who perform services that are of direct benefit to MGSLP. Certain MHESAC personnel are authorized to purchase computer equipment for use by both MGSLP and MHESAC. Costs for these purchases are covered under the shared costs agreement between the two

entities. MGSLP also receives certain services from the State of Montana for telephone, postage, and computer supplies which directly benefit MHESAC. MHESAC reimburses MGSLP for these services.

MGSLP's portion of shared costs reimbursed to MHESAC during FY96, is $247,615, including $68,220 which was not paid until after June 30, 1996. During the year, MGSLP was reimbursed for $266,096 of shared costs by MHESAC, which includes an accrued receivable of $34,604 for reimbursements not received until after June 30, 1996.

20. EMPLOYEES' RETIREMENT SYSTEM

MGSLP employees are covered by the Public Employees Retirement System (PERS) or the Teachers Retirement System (TRS). Professional employees with contracts under the authority of the Board of Regents may choose either the Montana Teachers Retirement System (TRS) or the Optional Retirement Program (ORP), which is available through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). The classified staff is provided a retirement program through the Montana Public Employees Retirement System (PERS).

DEFINED BENEFIT PLANS

Public Employees Retirement System (PERS).

Established in 1945 and governed by Title 19, Chapter 3, MCA, Public Employees Retirement System participants are eligible to retire at age 60 with at least five years of service; at age 65 regardless of length of service; or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals five years. Under PERS, the state contributed 6.700% of an employee's gross wages. The employee contributed 6.700% of his/her gross wages.

Teachers Retirement System (TRS).

The Teachers Retirement System was established in 1937 and is governed by Title 19, Chapter 20, MCA. Teachers Retirement System participants are eligible to retire with a minimum 25 years of membership service or five years of creditable service at age 60. A retirement benefit is 1/60 times the years of service times average final compensation. An employee is vested in TRS following completion of five years of creditable service. Vested employees may retire at or after age 50 and receive a reduced retirement benefit. Under TRS, the state contributed 7.470% of an employee's gross wages. The employee contributed 7.044% of his/her gross wages.

The State's policy is to fund accrued pension costs although unfunded liabilities exist. Based on their most recent actuarial valuation reports, both the PERS and the TRS were actuarially sound.

Trend information, indicating the progress made toward accumulating assets needed to pay retirement benefits when they are due, is not available on an agency basis. This information is available on a statewide basis in the Retirement System's annual reports.

RETIREMENT PLAN INFORMATION FOR MGSLP AS OF JUNE 30, 1996

	PERS	TRS
Covered Payroll	$775,329	$ 369,903
Total Payroll	1,171,477	1,171,477
Employer Contributions	$ 51,947	$ 27,632
Percent of Covered Payroll	6.700%	7.470%
Employee Contribution	$ 51,947	$ 26,056
Percent of Covered Payroll	6.700%	7.044%

21. GOING CONCERN

On August 10, 1993, Congress enacted PL 103-66 which includes the Student Loan Reform Act of 1993. The Student Loan Reform Act authorizes a Federal Direct Student Loan Program (FDSLP) which provides that the federal government, rather than private lenders, supply the capital necessary for student loans. The Student Loan Reform Act calls for a gradual phase-in of the FDSLP beginning July 1, 1994, with up to 60% of the national student loan volume being made under the FDSLP by 1999. One Montana school, historically accounting for approximately 21% of MGSLP's annual loan guarantee volume, is currently participating in the FDSLP. The future impact of the FDSLP on loan guarantees by MGSLP is not known at this time. MGSLP guarantee fee revenues, administrative expense allowance, and escrow fees are based on the volume of loans originated and disbursed under the Federal Family Education Loan Program. These sources of revenue are expected to be adversely impacted by the implementation of the FDSLP.

Program Response

MONTANA GUARANTEED STUDENT LOAN PROGRAM

Mailing Address:
P.O. Box 203101
Helena, MT 59620-3101

(406) 444-6594
FAX (406) 444-0684

Delivery Address:
2500 Broadway
Helena, MT 59601-4989

Customer Assistance (800) 537-7508

SEP 2 4 1996

September 24, 1996

Scott A. Seacat
Legislative Auditor
Capitol Station
Helena, Montana 59620

Dear Mr. Seacat:

This letter confirms completion of the Montana Guaranteed Student Loan Program's FY96 financial audit which was performed by your staff. It is my understanding there were no recommendations.

I want to take this opportunity to thank you and your staff for the fine spirit of cooperation and professionalism with which the audit was conducted. Please be assured that MGSLP'S management and staff will continue to evaluate the operations of the agency as impacted by ever-changing federal legislation. We remain committed to providing the best available services to the students, schools, and lenders participating in the Federal Family Education Loan Program in Montana. Their confidence in the integrity and quality of service provided by MGSLP is of utmost importance to ensure that Montana students are never denied access to private capital for student loans.

Sincerely,

Arlene Hannawalt

Arlene Hannawalt
Interim Director